

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (CHFFA)
BOND FINANCING PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Valley Community Clinic ("VCC") 6801 Coldwater Canyon Avenue North Hollywood, California Los Angeles County</p> <p>Project Site: 6801 Coldwater Canyon Ave, North Hollywood, California, Los Angeles County</p> <p>Facility Type: Community Clinic, Federally Qualified Health Center (FQHC)</p> <p>Prior Borrower: No</p>	<p>Amount Requested: \$2,200,000</p> <p>Date Requested: January 28, 2010</p> <p>Requested Loan Term: 30 years</p> <p>Resolution Number: 351</p>																
<p>Background: VCC provides health care and health education to individuals residing in low income communities in Los Angeles County. VCC commenced operations in 1970 and has grown to a comprehensive primary care community clinic providing medical, dental, mental health, laboratory, optometry and other health services to approximately 54,000 patients.</p>																	
<p>Use of Proceeds: Bond proceeds will be used to refinance two high interest rate loans (U.S. Bank and Valley Economic Development Corporation). This refinancing will result in an estimated interest savings of \$168,000 over the life of the bonds.</p>																	
<p>Type of Issue: Negotiated public offering with fixed rate securities</p> <p>Credit Enhancement: Cal-Mortgage Insurance</p> <p>Underlying Credit Rating: A- (S&P) based on Cal-Mortgage Insurance</p> <p>Senior Underwriter: Piper Jaffray & Co</p> <p>Bond & Disclosure Counsel: Quint & Thimmig LLP</p> <p>Other Financing Teams: See Exhibit I (Page 8)</p>																	
<p>Financial Overview: VCC's income statement appears to exhibit improving operating results over the review period. VCC's balance sheet appears strong with a current operating debt service coverage of 1.82x. With this financing, VCC's proforma operating debt service coverage ratio appears to be a healthy 2.85x.</p>																	
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<p>* Grant has been received by the borrower and will be used to pay for the cost of bond issuance.</p>																	
<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the applicant.</p>																	
<p>Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$2,200,000 for Valley Community Clinic subject to a bond rating of at least an "A" category rating by a nationally recognized rating agency and subject to a final Cal-Mortgage Insurance commitment. Macias Consulting, Inc., the Authority's financial analyst, has reviewed all relevant financial documentation submitted by Valley Community Clinic and has advised of its concurrence with the Authority's staff recommendation.</p>																	

STAFF SUMMARY AND RECOMMENDATION

Valley Community Clinic (“VCC”)

January 28, 2010

Resolution Number: 351

I. PURPOSE OF FINANCING:

VCC is seeking to refinance two high interest rate loans to take advantage of current low interest rates and to avoid a balloon payment of \$1.6 million due in 2012. VCC has secured a grant in the amount of \$270,000 from United Health Group to offset the cost of bond issuance, seeming to make this refinancing economically feasible and advantageous.

***Refinancing of Existing Loans*..... \$1,934,000**

Bond proceeds will be used to refund the following loans:

U.S. BANK Loan\$1,860,000

This is a variable interest loan (currently at 7.73%,) with a \$1.6 million balloon payment due in 2012.

Valley Economic Development Corporation Loan 74,000

This is a fixed rate loan (6%).

These two loans were used to purchase VCC’s current property located at 6801 Coldwater Canyon Avenue in North Hollywood. VCC estimates the fair market value of this property (sitting on 2.9 acres and approximately 43,000 square feet in size) to be \$ 7.6 million.

***Swap Termination Payment* 200,000**

VCC will use its own funds to make an estimated \$200,000 swap termination payment associated with the U.S. Bank loan.

***Debt Service Reserve* 140,000**

***Cal-Mortgage Bond Insurance* 124,000**

***Contingency Fund* 100,000**

***Financing Costs* 172,000**

Underwriters discount \$48,000

Cost of issuance 124,000

***Total Uses of Funds* \$2,670,000**

II. FINANCIAL STATEMENT AND ANALYSIS:

Valley Community Clinic

Statement of Activities

(Unrestricted)

	For the Year Ended June 30,		
	2009	2008	2007
PUBLIC SUPPORT AND REVENUE:			
Public support			
Government contracts	\$ 4,225,143	\$ 4,131,315	\$ 4,066,490
Contributions	4,371,983	3,566,919	3,981,386
Program fees and donations	795,245	-	-
Total public support	<u>9,392,371</u>	<u>7,698,234</u>	<u>8,047,876</u>
Revenue			
Investment income	39	215	1,801
Rental income	284,178	270,481	272,294
Total revenue	<u>284,217</u>	<u>270,696</u>	<u>274,095</u>
Net assets released from restrictions	<u>1,898,351</u>	<u>1,574,274</u>	<u>1,025,785</u>
Total revenue and public support	<u>11,574,939</u>	<u>9,543,204</u>	<u>9,347,756</u>
EXPENSES:			
Program and support services			
Salaries and wages	4,836,457	4,537,948	4,252,959
Medicine and supplies	1,660,301	1,994,100	2,108,479
Payroll tax	402,492	374,635	351,139
Clinical services	306,512	316,625	390,190
Contractor fees	229,528	289,201	346,670
Laboratory fees	223,425	162,965	146,224
Insurance - health	223,194	229,417	180,101
Repairs and maintenance	186,905	145,096	117,999
Interest expense	156,059	157,321	180,548
Depreciation	148,349	135,451	123,912
Utilities	139,761	111,956	83,974
Optometry supplies	139,224	138,457	142,525
Office supplies and expense	124,871	146,631	196,684
Medical services	81,857	143,949	170,682
Insurance - general	67,830	76,405	96,645
Insurance - workers' comp.	65,507	64,937	77,559
Education and Seminars	46,689	49,052	43,965
Telephone	42,477	40,388	40,406
Tax and license	42,402	47,258	42,713
Reproduction and printing	34,904	28,669	45,421
Accounting and audit	32,000	29,800	27,799
Travel and mileage	28,500	15,805	21,060
Events and other expenses	28,327	80,485	103,960
Dues and subscriptions	27,028	28,469	19,025
Equipment purchase	26,104	-	-
Pharmacy services	22,309	13,158	11,900
Other	82,048	88,858	89,056
Total program expenses	<u>9,405,060</u>	<u>9,447,036</u>	<u>9,411,595</u>
Change in unrestricted net assets	2,169,879	96,168	(63,839)
Unrestricted net assets, beginning of year	<u>1,845,996</u>	<u>1,749,828</u>	<u>1,813,667</u>
Unrestricted net assets, end of year	<u>\$ 4,015,875</u>	<u>\$ 1,845,996</u>	<u>\$ 1,749,828</u>

Valley Community Clinic
Financial Position

	As of June 30,		
	2009	2008	2007
ASSETS:			
Cash and cash equivalents	\$ 2,219,501	\$ 323,582	\$ 151,264
Accounts receivable, net	470,623	504,673	671,949
Contributions receivable, net	3,109,168	634,930	589,380
Medical supplies inventory	66,144	49,489	58,786
Prepaid and other assets	14,737	22,010	45,133
Land, building and equipment, net	5,333,087	5,434,252	5,335,136
Total current assets	\$ 11,213,260	\$ 6,968,936	\$ 6,851,648
LIABILITIES AND NET ASSETS:			
Accounts payable and accrued expenses	\$ 246,320	\$ 175,300	\$ 297,282
Accrued payroll and compensated absences	329,259	284,034	238,064
Refundable deposit	-	250,000	-
Deferred rent	-	23,188	-
Deposits	57,870	57,870	71,606
Notes payable	1,931,909	2,040,403	2,153,972
Securities interest in coldwater property	1,203,335	1,243,335	1,283,335
Total current liabilities	3,768,693	4,074,130	4,044,259
NET ASSETS:			
Unrestricted	4,015,875	1,845,996	1,749,828
Temporarily restricted	3,428,692	1,048,810	1,057,561
Total net assets	7,444,567	2,894,806	2,807,389
TOTAL LIABILITIES AND NET ASSETS:	\$ 11,213,260	\$ 6,968,936	\$ 6,851,648

Financial Ratios:

	Proforma (a)			
	FYE June 30, 2009	2009	2008	2007
Debt service coverage (x) (Operating)	2.85	1.82	1.42	0.84
Debt service coverage (x) (Total income) ^(b)	13.96	8.93	1.42	0.84
Debt/Unrestricted Net Assets (x)	0.51	0.48	1.11	1.23
Margin (%)		18.75	1.01	Neg
Current Ratio (x)		9.26	1.91	1.69

^(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

^(b) The increase in DSC is due mainly to the one-time grants that VCC secured in FY 2009.

Financial Discussion:

VCC's income statement (Statement of Activities) appears to exhibit improving operating results over the review period.

Revenues have increased over the review period by 25%, from \$9.3 million in FY 2007 to \$11.6 million in FY 2009. According to VCC, most of this increase came during FY 2009 when VCC received a one-time capital gift from J.H. Snyder Company as a community benefit payment associated with the completion of a construction project known as the North Hollywood construction project. Throughout the review period, VCC's overall expenses appear to have fluctuated within close ranges seeming to remain generally consistent.

Particular Facts to Note:

- The one-time capital gift of \$3.25 million will be received in cash over three years. The first payment of \$1.25 million was received and recorded during FY 2009. In response, VCC used a portion (\$1 million) of this capital gift to establish a 60 day cash reserve fund, as well as a separate rainy day fund, to be used for building maintenance. VCC is holding the remainder of the initial payment as board restricted funds to ultimately be used for capital improvements or other operating needs.
- In FY 2009, VCC secured grant funds from the American Recovery and Reinvestment Act, (a two-year grant for the "Increased Demand for Services Program" in the amount of \$400,000, and another grant for "Capital Improvement Projects" in the amount of \$750,000).
- In FY 2009, VCC partnered with California State University Northridge to become a mental health training site for students. VCC believes this positions VCC to potentially access Proposition 63 (2004 Mental Health Service Act) funding to support a new behavioral health program.
- In FY 2008, VCC received a federal grant to expand services for the benefit of adolescents. As a result of this grant, four staff positions were added and VCC established a comprehensive adolescent medicine program. Additional private funding was received to build 4,000 square feet of additional clinical space (project completed in early 2009).
- VCC attributes the FY 2007 negative net income to costs associated with the transition of new management, decreased productivity associated with a shortage of medical providers (despite concerted recruiting efforts), decreased Medi-Cal and managed care revenue, and an eight month vacancy in office space VCC routinely leases to third parties.

VCC's balance sheet (Financial Position) appears strong with a current operating debt service coverage of 1.82x. With this financing, VCC's proforma operating debt service coverage ratio appears to be a healthy 2.85x.

Particular Facts to Note:

- Cash and cash equivalents increased from \$151,264 in FY 2007 to \$2,219,501 in FY 2009. According to VCC, this increase is mainly due to VCC's receipt of the two ARRA grants mentioned above and to VCC's \$1 million allocation of the one-time capital gift mentioned above to its new 60-day cash reserve and rainy day funds.
- As a result of VCC's receipt of the one-time capital gift and the two ARRA grants in FY 2009, VCC's current debt service coverage ratio would appear to be a solid 8.93x (and with this financing the proforma debt service coverage would improve to 13.96x). VCC's current and proforma debt service coverage ratios appear to remain strong (1.82x and 2.85x, respectively) even if the one-time capital gift and the two ARRA grants are not included within the calculation.

III. BACKGROUND:

Founded in 1970, VCC has provided a wide range of primary medical, dental, optometry, counseling and health education services for those in need of care for more than 38 years. VCC believes VCC's culturally sensitive environment is the basis for providing high-quality care and that VCC's health education and prevention programs help to empower low-income and uninsured patients to take responsibility for and to share in decisions regarding their health care. VCC works with other community-based organizations, governmental agencies and local schools within the County of Los Angeles, specifically the San Fernando Valley, to ensure access and supportive services to as many people in need as possible. Primary support and revenue come from state and local funding, federal grants, private contributions, insurance claims and counseling fees.

VCC is governed by a 17 member Board of Directors and Governors (the "Board"). The Board is responsible for marketing, public relations, fundraising and community networking.

License:

VCC is a community clinic licensed by the State of California Department of Public Health and is also a Federally Qualified Health Center.

IV. UTILIZATION STATISTICS:

**Patient Visits
Fiscal Year Ended June 30**

	2007	2008	2009
Totals	54,057	53,248	53,280

V. OUTSTANDING DEBT:

<u>Date Issue:</u>	<u>Amount Outstanding* as of 06/30/2009</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing Long-Term Debt:		
U.S. Bank, 2002 Variable Rate (Currently at 7.73%)	\$ 1,838,243	\$ -
Valley Economic Development Center, 2002 Fixed Rate (6%)	93,666 **	-
City of Los Angeles*** Forgivable Loan	1,203,335	1,203,335
Proposed:		
CHFFA Bonds, 2010	N/A	2,200,000
TOTAL DEBT	<u><u>\$ 3,135,244</u></u>	<u><u>\$ 3,403,335</u></u>

*Does not include current portion of long-term debt.

**The current amount outstanding is \$74,000 due to routine payments of principal and interests since June 30, 2009.

***Indicates a forgivable loan of \$40,000 annually. The debt will be entirely forgiven in 40 years.

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- **Section 15438.5(a) of the Act (Savings Pass Through):** VCC properly completed and submitted the “Pass-Through Savings Certification,” in addition to a narrative explaining how it intends to pass through savings.
- **Section 15491.1 of the Act (Community Service Requirement):** VCC properly completed and submitted this certification indicating that Medi-Cal and Medicare patients are accepted.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** VCC properly submitted documentation to the Authority demonstrating the proposed project has either complied with Division 13 (commencing with Section 21000) of the Public Resources Code, or is otherwise not a project under that division.
- **Religious Due Diligence.**
- **Legal Review.**

EXHIBIT I

Other Parties Affiliated with this Transaction:

Law Office of Emilio J. Huerta (Borrower's Counsel)

Cal-Mortgage (Bond Insurer's Counsel)

U.S. Bank, Corporate Trust Services (Master Trustee and prior trustee)

Dorsey & White LLP (Trustee's Counsel)

Miller, Kaplan, Arase & Co. LLP (Borrower's Auditor)

Standard & Poor's (Rating Agency)